

As of September 13, 2012

MICHIGAN DEPARTMENT OF NATURAL RESOURCES (DNR)
NARRATIVE SUMMARY APPRAISAL REPORT STANDARDS

Working Together – The DNR Appraisal Standards are designed to assist DNR staff, partners and local units of government throughout the acquisition, exchange and disposition processes. Finding key information in predictable places saves time and improves efficiency for both the appraiser and report user.

Therefore we request your cooperation to follow the general outline provided. Many of the details within the outline are offered as reminders or suggestions for developing your credible results.

Newer Requirements

- A visual representation that clarifies the key relationships in the appraisal problem, so a visual representation of your understanding of that appraisal problem. This might be accomplished by existing visual/map, or your own modification of the same visual/map or your own original sketch.
- A deed of the subject property, to be placed first in the Addendum.
- Number of splits remaining to be placed on the Summary Page.
- The completed DNR Appraisal Site Inspection Environmental Checklist on the second to the last page.
- A copy of your current liability insurance coverage & appraiser's license on the last page of the addendum.
- Subject tax ID placed on the Title Page.
- If the subject is landlocked, identify adjoining owners and explain potential access. Provide a plat or tax map and identify adjoining owners and roads.
- While all market indicators are expected to be explored, a quantitative grid for the sales comparison approach **must** be used, with adjustments where appropriate and market related explanations. A qualitative analysis only is not acceptable.
- Analyze and report subject sales history over 10 years, if possible, and provide date of last sale of the subject.
- Limiting Conditions which shift responsibility to the State of Michigan or limit the use of the report are not acceptable. The State of Michigan will not indemnify.
- A Direct Sales Comparison approach minimally is always required.

- Do not use hypothetical conditions or extraordinary conditions unless you are instructed to do so by DNR.
- If you have any questions about the appraisal report, call the DNR Review Appraiser at 517-335-4867. If you have questions about the property itself or the project, call the Case Manager on your bid award.
- We are adopting MDOT's appraisal policy on Hazardous Waste or Property Contamination.
- Please ask the owner if they have a recorded survey of the subject property. If not recorded, then do they have any survey? Please include any survey(s) from whatever source in the addendum.

DNR Appraisal Review Process

- The DNR Appraisal Review will be started generally within the first week of receipt in the Real Estate Services Section of DNR. The report(s) are date stamped upon arrival.
- When the Review is complete, the invoice is given to the Case Manager to approve for payment. The Case Manager then takes receipt of all of the appraisal materials.
- When the Review results in questions or concerns, those issues are sent in an e-mail from the Reviewer to the Appraiser with a follow up phone conversation initiated by the Reviewer within a few days. If as a result of the conversation, additional information is needed, there will be an agreed upon date to provide an electronic submission of the information to the Reviewer – usually within a few days. The Review will be completed based on the information available to the Reviewer from the Appraiser at that agreed upon date.
- The Review of many contract appraisals are reviewed and accepted without need to contact the Appraiser.
- Should there be a questions of the Appraiser, it is the Department expectation that the Appraiser will fully cooperate to ensure a helpful and credible product for DNR's use, which includes conformance with all applicable Standards (USPAP and DNR Appraisal Report Standards minimally).

DNR APPRAISAL REPORT FORMAT

Please follow this outline. It helps us to reliably find information as we need it.

Part I – Introduction

A. Title Page

1. Name and location of property, **Tax ID**, project, acreage, township, county, ownership and case number if provided. **Include subsurface owner's name and contact number if severed from surface owner.**
2. Name of appraiser and effective date of the appraisal.

B. Table of Contents

1. Number every page from cover to cover.
2. List titles and corresponding page numbers.

C. Summary Page

1. Name of project and project # if available.
 2. Location – road, section, township, county.
 3. Ownership identification – **Surface and Subsurface.**
 4. Name of appraiser, certification type and number, business address, e-mail address, fax and telephone numbers.
 5. Dates of field work – all dates spent in the area for the appraisal.
 6. Date of property inspection.
 7. Effective date of appraisal – normally last time subject inspected.
 8. Reporting format – prominent statement of which kind of report.
 9. Interest being appraised.
 10. Definition of value to be developed in the report.
 11. Purpose of the report.
 12. Intended use and users.
 13. **Number of splits remaining in the subject parcel.**
 14. **Survey if available.**
 15. Size, in acres, unless otherwise specified. Include road and/or water frontage.
 16. Your sketch (free hand, computer generated) or modification of an existing survey/sketch/aerial photograph illustrating your understanding of the appraisal problem to assist the reader. Provide a conceptual visual of the appraisal problem.
 17. Highest and Best Use conclusion.
 18. Appraised Value.
- D. Statement of Limiting Conditions and Critical Assumptions. While USPAP mandates a statement relative to Extraordinary Assumptions or Hypothetical Conditions, DNR does not want them used unless discussed with DNR first.
- E. Statement of Co-authorship – acknowledge assistance received by other persons in arriving at the analysis, conclusions or opinions concerning real estate contained in the appraisal report. Statements of co-authorship are not to be construed as a waiver or transfer of responsibility for the contracting state certified general appraiser.
- F. Scope of Appraisal – summarize the extent of the process in which data are collected, confirmed and reported to produce credible assignment results. The appraiser should briefly describe the valuation process relied on in the final conclusion of value. Provide adequate location maps and photographs of the subject, including photos calling attention to particular issues identified in your report, where appropriate.

Part II – Factual Data

- A. Purpose – Define value being estimated and property rights appraised.
- B. Exposure time (Excluded when meeting “Yellow Book” UASFLA requirements).
- C. Intended Use and Intended Users.
- D. Function.
- E. Date of Inspection.
- F. **Full Legal Description Required.**
- G. Economic Foundation
 1. Market Area Influences – including but limited to employment, stability, cultural influences, social education and aesthetic.

2. Neighborhood Influences – Describe present neighborhood and land uses, forces evident in regard to change or stability.
 3. Zoning or other Restrictions – Itemize current zoning classification/uses as well as designation of future land use; if different, discuss.
- H. Property Data
- I. Site:
1. Current equalized values, assessments, taxable values and annual property tax.
 2. Survey including critical dimensions (if available) or tax map. If landlocked call out adjoining ownership and location of nearest road.
 3. Present use
 4. Topography
 5. Soil and drainage characteristics
 6. Area description.
 7. Road frontage or water frontage, and access
 8. Ground cover
 9. Utilities
 10. Easements, leases, permits, enrollment in land conservation programs (farmland, forest protection, etc.)
 11. Mineral rights and deposits on subject. **(Identify and discuss on comparables as well.)**
 12. History – including offers to buy, sell and listings with asking price over the past 10 years.
 13. Zoning – describe present zoning for the subject including any reasonably probable changes that may influence value. Specific if development potential (legal splits, etc.) Discuss future land use maps or studies if subject is in an interim highest and best use.
 14. Provide name and addresses of all current parties of interest, including co-owners, subsurface rights holders, lessees, licensees, easement holder, etc.
 15. Encroachments – are there any encroachments or unresolved problems affecting the subject. Please describe and photograph.
- J. Improvements – include a site plan and a floor plan
1. Major land improvements such as dams, irrigation systems, etc., and minor land improvements such as wells or fencing
 2. Size of any and all structures
 3. Condition and quality
 4. Physical and effective age, functional and economic obsolescence, stigmas, marketability, etc.
 5. Type of construction
 6. Special amenities, utilities, heating/cooling, basements, slabs, etc.
 7. Equipment, if any – describe utility, obsolescence, and repair or replacement requirements.
- K. Hazardous Waste or Property Contamination
1. Fully describe any physical details of the land and improvements which are unusual and indicate possible presence of hazardous wastes or contamination, i.e. unvegetated or stain areas, underground tanks, foam insulation, asbestos, transformers and electrical equipment containing PCB's and product and processing materials. Detail your inquiries to, and response of, property owners and/or their representatives. Include their knowledge of past uses of subject property and adjoining properties. Promptly report suspected hazardous waste or contamination problems to the DNR Case Manager. If, in

your observation, you find no evidence of hazardous waste or contamination, that statement should be made in this section.

2. The following statement must be included in your appraisal report. "For purpose of this appraisal assignment the appraiser has been informed by the Michigan Department of Natural Resources that the subject property should be valued under the assumption that the property is free of any and all contaminants. The Department further advises that it intends to reserve its rights to bring cost recovery actions against the present owner of the property arising out of a release of hazardous substances at the property. No evidence of hazardous or toxic waste was observed by the appraiser; however, this appraiser is not versed in nor qualified to detect contaminated conditions. Expert testing should be done, if so desired."

Part III – Analysis and Conclusions

- A. Highest and Best Use – Include a definition of highest and best use and a thoughtful/thorough development and determination of this use.
 1. What uses are legally permissible?
 2. Of those legally permissible uses, which are physically possible?
 3. Of those legally permissible and physically possible uses, which uses can be proven to be financially feasible?
 4. Of the uses shown to be legally permissible, physically possible and financially feasible, demonstrate which use will generate the greatest net income or prove to be maximally productive?
- B. Appraisal Approaches to Value – Consideration will be given to the three standard approaches to value. It is not necessary to develop an approach that cannot be relied on as a reasonable accurate indication of value. The appraiser must explain the reasons for not using any of the standard approaches.
 1. **Sales Comparison Approach** – based on analysis of recent confirmed comparable sales. Please document how the sales were confirmed. Listings or government sales may be used to **supplement** market sales to gain a broader understanding of the market. The comparable sales analysis section should include:
 - a. A sales introduction and identification, site size, shape, access frontage, etc.
 - b. A map showing the location of the subject and all comparables with sufficient identifying information for DNR field staff to locate which may include the use of GPS coordinates.
 - c. Recent photograph of all comparables.
 - d. A complete data sheet for each comparable in the addendum with all identifying information previously discussed, including the steps taken to verify that information and with whom.
 - e. **Compare and discuss the mineral rights of the comparable sales to the subject.**
 - f. Discuss the reliability and similarity of the comparable in general to the subject.
 - g. Sales to or from governmental agencies or condemning authorities should be avoided in favor of market arm's length sales. A government sale could be added as a third or fourth comparable with adequate explanation to establish market forces in the sale.
 - h. Provide a general market analysis of these sales addressing the significant elements of value.

- i. If your market comparables are over 3 years old, include 3 current listings of similar property now on the market.
- j. A comparison of sales with the subject in quantitative (grid or otherwise) format with adjustments where necessary is required.
- k. A final indication of value. Regardless of charts, tables or graphs, a narrative comparison of the pertinent market data with the subject is still required. The narration should clearly and concisely demonstrate the reasoning behind the appraiser's final indicated value from the sales comparison approach.

NOTE: To the extent which it is possible all sales adjustments should be derived from a cross-comparison (pairing) of sales which consistently reflect these same differences, or from other market sources. Supplemental support should be provided for any adjustment which cannot otherwise be supported through comparative analysis or for adjustments which would be viewed by their professional peers as being exceptionally large on a percentage basis.

2. Income Approach – It is acknowledged that some form of Gross Rent Multiplier (GRM) or Effective Gross Income Multiplier (EGIM) may be used for single family and less sophisticated investments, otherwise it is expected the income approach will be based on the capitalization of the net income generated from the subject. As such a value estimate by the income approach shall include adequate factual data to support all components of income and expenses.

Supporting data should include:

- Estimated market rent or income.
- Allowances for vacancy and credit losses
- An itemized estimate of total expenses including reserves for replacement.

Capitalization of net income shall be at the rate prevailing for this type of property and location. Actual, rather than estimated, rents from the comparable sales should be used whenever possible. The capitalization rate should be derived from the market and all critical information should be explained in narrative form and supported by a statement of sources of rates and factors.

Although it should only be employed in support of the sales comparison approach and not as the sole basis for valuation, when discounted cash flow analysis is being used in the appraisal of vacant land, support should be provided for each of the assumptions made including marketing time, project absorption periods and discount rates.

3. Cost Approach – based on replacement or reproduction cost new (whichever would be applicable) of the improvements or building, less applicable depreciation, plus the value of the land (based upon a similar highest and best use). All work shall be in the form of computed data, arranged in sequence, beginning reproduction or replacement costs, and shall state the source, book and page of all figures used. The dollar amounts of physical deterioration and functional and external obsolescence, or the omission of same, shall be explained in narrative form.

C. Correlation and Final Estimate of Value – one of the final steps in the analyses and conclusions portion of the report will be a narrative correlation of the indications of value into a final estimate of value. When only one approach is used, the correlation will serve as:

1. A summary of the most pertinent data of the particular approach.

2. The appraiser's conclusion of market value. Provide a summary to explain the strengths and weaknesses of each approach and the weight each is given.

D. Certification

Part IV – Exhibits and Addenda (in this order)

- **A deed of the subject property.**
 - **The Fee Appraisal Request form & any other bidding documents used for this assignment.**
 - **Any survey(s) available.**
 - Sales data sheets detailing buyer/seller information, source of verification, consideration, terms, date of transaction, legal description, description of physical characteristics relative to all elements of adjustment, and income and expense data relative to extraction of overall capitalization rates are required. Indicate if the parcel has mineral or timber value. Explain the steps you took to verify sales and income data. You must have a copy of the public record verifying information in your file or in the report.
 - A duplicate copy of the Comparables sales **map** (one sheet) of suitable detail to assist the report's reader/user to visualize, compare and locate all properties discussed. (One in the body of the report and one in the Addenda.)
 - Photos of unresolved issues – encroachments, etc.
 - Any other documents not already included elsewhere: maps, plats, deeds, photographs, and other pertinent information not already provided elsewhere in the report.
 - A copy of the completed DNR Appraisal Site Inspection Environmental Checklist
 - A copy of the appraiser's E&O insurance and appraiser's license.
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DNR Basics and Appraisal Standards

- All appraisals must meet Uniform Standards of Professional Appraisal Practice (USPAP) and DNR Appraisal Report Standards. If other standards are required, notice will be provided as a part of the Request for Proposals (RFP) process. If there is federal money involved, Yellow Book Standards might be required.
- Appraisers for our Level 2 (default status) and Level 3 (most complex and not yet developed) assignments must be approved and on our pre-qualified list to be considered for assignments. (Questions- Laffertyv@michigan.gov) All pre-approved appraisers for our approved list must be State Certified General.
 - Our bids are posted only on Bid4Michigan -- <http://www.govbids.com/scripts/bid4michigan/Public/home1.asp>. Please sign up there to receive bid announcements – there is a free service and another service which notifies you of specific bid opportunities when they become available for a nominal fee. Many units of government in Michigan use this vehicle to solicit bids from appraisers.
 - Payment from the State of Michigan is done electronically into your checking account. So you will need to set up to get paid. You will only need to do it once for any work you do with the State of Michigan.

- Our Level 1 assignments are available to any licensed appraiser competent (per USPAP) to do the assignment. You do not need to be on our pre-approved list of appraisers.
- Like State of Michigan appraiser licensing, DNR contracts with the licensee not the appraisal company.
- Market Value should be sought unless our DNR bid specifies otherwise, specifically:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeable, and for self-interest, and assuming that neither is under undue duress.
- While your staff and appraiser licensees may be utilized on assignments at your discretion, all appraisals must be researched, prepared and signed by the contracted Certified General licensee in conformance with USPAP and USPAP's Competency Rule.
- As Users of your report, we need to understand your reasoned and logical approach to the appraisal problem. Please discuss all relevant factors and your thought process as you move through the appraisal problem to its final solution. *Boilerplate without relevance is strongly discouraged.*
- While all appraisals will undergo a desk review, some will undergo a partial or full field review so it is critical that locations of the subject and comparables be clearly identified through legible maps, legal descriptions and/or use of nearby addresses, landmarks and/or GPS coordinates to aid the reviewer.
- The data sheets of each comparable must be complete as outlined on our Standards. Each comparable, like the subject itself, must be identified with size, shape, dimensions, road frontage/access data, condition of sale, days on the market, verification data, photographs/maps, subsurface rights if appropriate, and a statement regarding potential mineral or timber value, etc.
- **Market sales are required.** While transactions involving governmental units, agencies and/or non-profit conservancies *may* be used to *supplement* the sales comparison analysis, private sector transactions **must** be included. Extreme care should be taken to verify sales involving governmental units or charitable organizations were in fact reflective of market conditions and indeed "arms-length" transactions. An explanation should be provided verifying the extent to which this has been done. Supplemental comparable listings are encouraged as market indicators to augment actual market sales data. Please research the total time exposed to the market (by the owner and/or sale listing offices as is necessary) and have deed/affidavits in your file or in the report.
- Reports should be in narrative format (unless otherwise specified. Provide identifying information on the cover, including location, project name of surface owner and subsurface owner (if different), Tax ID and project number if available.

- Form reports may be allowed on simpler assignments, and they should try to meet our DNR standards where possible, besides USPAP. (Consult with Review Appraiser.)
- Please be sure and make contact with the owner and offer them the opportunity to inspect the property together. It is their privilege to accept or reject.
- Your appraisal should include a statement regarding potential for oil and gas, metallic minerals (like copper or iron) and nonmetallic mineral (like sand or gravel) resources and include values where significant potential exists.
- Appraisers are required to be unbiased and neutral as to the parties to the transaction.